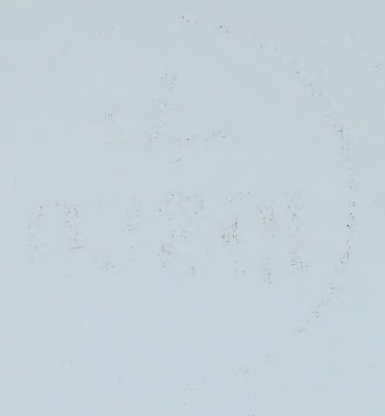


file 22



**INTERPROVINCIAL STEEL
AND PIPE CORPORATION LTD.**

**1968
ANNUAL REPORT**



INTERPROVINCIAL
STEEL
AND
PIPE
CORPORATION
LTD.

DIRECTORS

D. R. Annett, Toronto.....	President, Annett & Company Limited
W. M. Elliott, Q.C., Regina.....	Partner, MacPherson, Leslie & Tyerman
D. B. Furlong, Regina.....	General Manager, Saskatchewan Power Corporation
G. T. Haig, Regina.....	Interprovincial Steel and Pipe Corporation Ltd.
J. V. King, Regina.....	President, Continental Construction Ltd.
R. B. Love, Calgary.....	Partner, Macleod, Dixon, Burns, Love, Leitch & Lomas
C. S. McLeod, Regina.....	Executive Vice-President, Western Tractor Ltd.
A. Hoadley Mitchell, Edmonton.....	President, Mitchell & Associates Ltd.
G. P. Osler, Toronto.....	President, Unas Investments Limited
F. E. Shaw, Sarnia.....	Interprovincial Steel and Pipe Corporation Ltd.
G. C. Solomon, Regina.....	President, Western Tractor Ltd.
J. N. Turvey, Regina.....	Interprovincial Steel and Pipe Corporation Ltd.
A. T. Wakabayashi, Regina.....	Deputy Provincial Treasurer, Government of Saskatchewan

EXECUTIVE OFFICERS

F. E. Shaw.....	<i>Chairman of the Board</i>
J. N. Turvey.....	<i>President</i>
G. T. Haig.....	<i>Vice-President - Production</i>
J. D. MacLennan.....	<i>Vice-President - Finance</i>
L. G. Welch.....	<i>Vice-President - Sales</i>
B. E. Yeo.....	<i>Secretary</i>
W. H. Boulding.....	<i>Treasurer</i>

REGISTRAR AND TRANSFER AGENTS

Common Shares.....	}	Montreal Trust Company
Preference Shares.....		
First Mortgage Sinking Fund Bonds.....		
First Mortgage Sinking Fund Bonds (Series B).....		
First Mortgage Sinking Fund Bonds (Series C).....		
Convertible Debentures.....		Canada Trust Company

OFFICES

Head Office and Plant Location: P.O. Box 1670, Regina, Canada

Sales Offices:

Regina — Head Office	Calgary — 301 Petro Chemical Building	Edmonton — 702 Centennial Building
Vancouver — 1455 West Georgia St.	Winnipeg — 870 Bradford St.	Toronto — Ste. 828, 67 Yonge St.

INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

12TH

ANNUAL REPORT

FOR THE YEAR ENDED AUGUST 31, 1968

HIGHLIGHTS OF THE YEAR

	1968	1967	1966	1965	1964	1963	1962
Sales	\$15,515,060	\$14,658,000	\$17,329,000	\$17,969,000	\$13,304,000	\$12,948,000	\$10,993,000
Net Profit before Depreciation	\$ 1,332,114	\$ 2,372,122	\$ 4,179,150	\$ 3,554,546	\$ 2,434,104	\$ 2,796,367	\$ 505,949
Provision for Depreciation.....	\$ 916,874	\$ 770,215	\$ 753,180	\$ 751,478	\$ 633,072	\$ 586,395	—
Net Profit.....	\$ 415,240	\$ 1,601,473	\$ 3,425,970	\$ 2,803,068	\$ 1,801,032	\$ 2,209,972	\$ 505,949
Net Profit as Per Cent of Sales	2.7%	10.9%	19.8%	15.6%	13.5%	17.1%	4.6%
Number of Common Shares ...	2,849,051	2,846,651	2,832,731	2,740,224	2,702,481	2,554,580	2,552,000
Net Profit Per Common Share	\$.09	\$.51	\$ 1.17	\$ 1.02	\$.67	\$.87	\$.20
Working Capital	\$ 7,359,920	\$ 8,072,670	\$ 7,236,269	\$ 4,892,305	\$ 1,045,387	\$ 718,492	(\$ 717,910)
Long-Term Debt	\$10,883,819	\$ 9,916,762	\$10,495,062	\$12,030,563	\$11,150,000	\$10,105,000	\$11,005,000
Shareholders' Equity	\$22,656,778	\$22,384,507	\$20,891,548	\$15,030,851	\$12,152,684	\$10,919,108	\$ 8,705,137
Equity Per Preference Share .	\$ 21.30	\$ 21.30	\$ 21.30	—	—	—	—
Equity Per Common Share	\$ 7.02	\$ 6.93	\$ 6.44	\$ 5.49	\$ 4.50	\$ 4.27	\$ 3.41

DIRECTORS REPORT

TO THE SHAREHOLDERS

The Board of Directors submits herewith the Annual Report of your Company for the year ended August 31, 1968, together with the financial statements and your auditors' report.

Although the price war on pipe prices in Western Canada ended in June of 1968, the year under review reflects the full impact of reduced pipe prices as committed orders were not filled before the fiscal year end. Over the past two operating years the selling price of the principal product, API line pipe, has been reduced by an average of 20%. In 1967, this represented a reduction in profits of \$1,486,000. In 1968, a further \$1,501,000 reduction in profits was attributable to the pipe price war. Over the full twenty-five month period of depressed pipe prices, from June 1, 1966 to June 30, 1968, the profit loss due to the price war amounted to \$3,211,000.

In June of 1968, the first action by the industry's leading producer towards price stability was taken when new price lists on API line pipe in the 2" to 16" diameter range were issued. These prices apply on orders up to 1,000 tons and during the current year this has resulted in an improvement in net mill revenues on pipe sales in Western Canada. When consideration is given to the level of pipe prices over the last two years, it is not surprising that the operating results for the

year ended August 31, 1968 resulted in a net profit of only \$415,240. Had it not been for the fact that IPSCO produces its own skelp, together with the product diversification over the last several years, the Company, due to the price war would have suffered severe losses.

Overall sales last year, due to a further reduction in API line pipe prices, did not reach budget levels. It was hoped that this could be made up by increased tonnage volume of sales through increased sale of 2" to 16" diameter pipe and the introduction of spiral weld large diameter pipe. Tonnage of sales increased by 9%, but this was not sufficient to offset the reduction in API selling prices during the year under review.

Another factor which contributed to reduced earnings last year was increased production costs in the major product lines. Labour and material costs increased, following the pattern evident throughout the Canadian manufacturing industries last year. In addition, an increased demand for higher grades of API line pipe resulted in an increase in unit pipe costs. With the pipe price war it was not possible to recover these increased costs in the selling price of API line pipe. The combination of lower net mill revenues and higher production costs significantly reduced earnings last year. A return to stable pipe prices, together with higher levels of productivity in the first quarter of the current year, indicates that IPSCO, in 1969, will return to a more normal level of earnings.

Pipeline construction set a record last year, with some 5,000 miles completed. Prospects for 1969, based on projects either announced or planned, indicate that the 1968 record will be exceeded. The momentum established in 1967, when an estimated 500,000 tons of pipe was installed, increased by 20% to 600,000 tons in 1968. It is expected that this level of demand will be equalled or exceeded in 1969. With the introduction of API spiral weld large diameter pipe to the market last year, IPSCO is in a position to participate in the full range of project pipe requirements in 1969. Although it was unfortunate that the price war extended through two of the highest demand years in Western Canada, it is encouraging to note this level of activity will extend into the current year, with a stabilized price structure on API line pipe.

The Company's financial condition, due to reduced earnings, did not improve last year. However, construction of the large diameter spiral weld pipe mill was completed on schedule and within the budget allocated for this expansion program. Working capital is sufficient to meet the anticipated higher levels of production and sales during the current year.

The Company's forward order position is approximately double the comparable figure last year. This is due primarily to orders booked for API spiral weld large diameter pipe. Forecast sales of spiral weld pipe are expected to require a capacity level of operations for the balance of the current year. Of this amount, 50% has either been delivered or is ordered for delivery through the winter and spring seasons. The return to price stability on API pipe orders up to 1,000 tons is most encouraging and it is hoped this will reflect into larger project requirements during the current year. Increased production and sales in a broader product range, together with the improvement in pipe prices, will result in a substantial increase in earnings this year, as compared to 1968.

The past two years has been a frustrating period for both the directors and management of IPSCO. Despite every effort to increase productivity and efficiencies in the mills, reduced profit margins resulting from the price war has seriously reduced earnings. In the final analysis, the shareholders of IPSCO are the individuals most affected by the price war.

Over the relatively short history of the Company, IPSCO has demonstrated the ability to recover from difficult periods. The Company has emerged from the price war in a good financial position. Prospects for the current year are encouraging and a capacity level of ingot production is forecast to supply the expanded finishing departments. In the longer-term view, the

plans to increase ingot capacity will be undertaken at such time as earnings return to normal levels. The potential available to IPSCO in the solids pipeline project, referred to in a later section of the report, not only from the supply of pipe, but through investment in the pipeline is of particular interest. Further expansion to spiral pipe facilities will also be required as markets are developed.

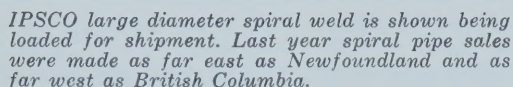
SALES

There was an increase in both the dollar volume and tonnage sales for the year ended August 31, 1968, as compared to 1967. However, as a result of the pipe price war, the selling price of API pipe declined further. This, combined with a lower production volume than forecast, reduced sales below anticipated levels last year. Dollar sales trends over the last eight years can be seen from the following summary:

<u>Year Ended August 31</u>	<u>Total Sales Volume</u>	<u>Percentage Change Over Previous Year</u>
1961	\$ 7,150,000	—
1962	10,993,000	+ 54
1963	12,948,000	+ 18
1964	13,304,000	+ 3
1965	17,969,000	+ 35
1966	17,329,000	— 4
1967	14,657,000	— 16
1968	15,515,000	+ 6

IPSCO spiral weld pipe is shown being installed near Biggar, Saskatchewan last summer. This was produced to the API X-52 specification for use in a high pressure gas transmission line.





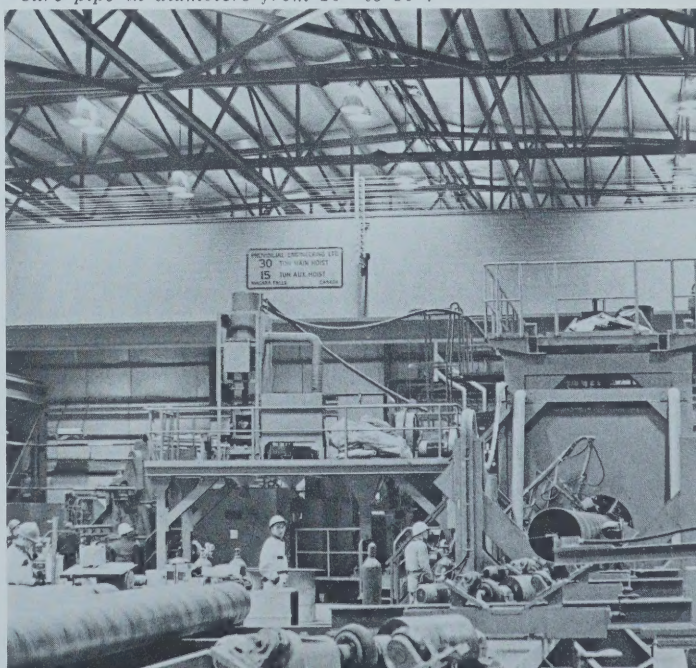
Two factors contributed to limit the volume of sales for the year ended August 31, 1968. The price war on API pipe in Western Canada intensified last year, reducing net mill revenues on this product to the lowest level in the twelve-year history of the Company. Since this is the most important product in terms of both tonnage and dollar sales, the reduction in revenue seriously curtailed earnings last year. It was hoped that the effect of this further deterioration in western pipe prices could be offset by increased volume of sales. However, due to problems experienced in the 3½" to 16" pipe mill, forecast production targets were not attained last year. The combination of lower net mill revenues on API line pipe and a lower than forecast volume of pipe production, seriously reduced sales volumes and earnings.

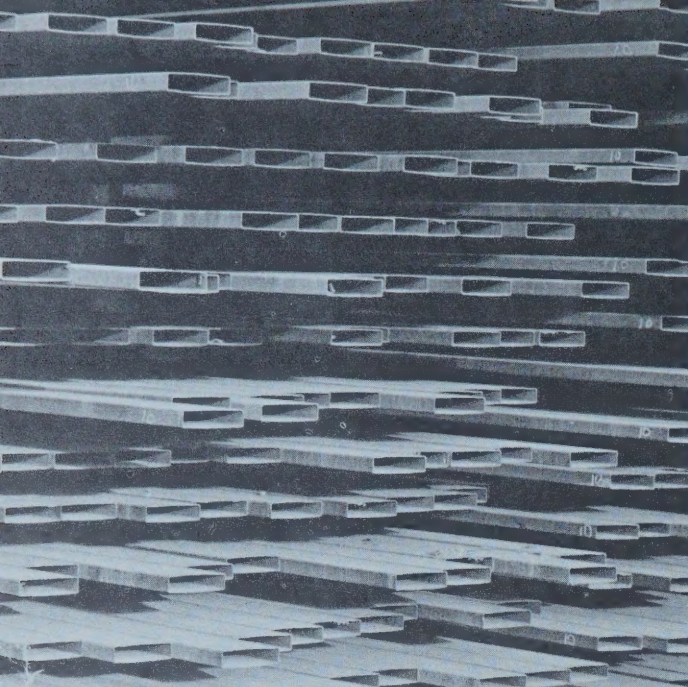
sales continued to improve, with a 40% increase in both dollar and tonnage volumes over the previous year. Sales of sheet and light plate increased 12% in tonnage and 7% in dollar volume over the previous year. The selling price on sheet and light plate was reduced in the British Columbia and Alberta markets last year, by the major Canadian producers, to meet Japanese competition in these products. The sale of coiled sheet was up 52% in terms of tonnage sales and 43% in terms of dollar volume last year over the previous year.

Sales of spiral weld large diameter pipe are reported on in a separate section of the report. In summary, last year IPSCO sold 95,182 tons of product for a total sales volume of \$15,515,060. This compares with sales of 87,096 tons in 1967 and a dollar volume of \$14,657,504. The year under review was extremely active in terms of pipeline construction, including both large diameter transmission lines and gathering lines.

Prospects are encouraging for sales during the current year. Although 1968 was a record year in pipeline construction in Canada, 1969 promises to equal or exceed the 1968 demand. Project lines in Western Canada slated for construction in 1969 will require 160,000 tons of pipe ranging in size from 2" diameter to 34" diameter. IPSCO is now in a position to quote on the full range of project pipe orders. The total Canadian market for steel pipe used in oil and gas pipeline construction in 1969 is forecast to exceed 600,000 tons. The anticipated improvement in pipe prices on orders up to 1,000 tons should result in increased sales dollar volumes in 1969. This will be further improved if project orders are tendered at more realistic prices.

The new \$2,000,000 spiral weld pipe mill was completed in March of 1968. This is a very compact mill and can produce specification pressure pipe in diameters from 16" to 80".





IPSCO structurals are now well established on the Canadian market. Last year structural sales increased by 40% and as more end-users are developed the market should continue to grow.

The forecast demand for tubular products in 1969 indicates that the major percentage of ingot production will be required for the production of pipe. For this reason, it is not anticipated that flat roll sales of sheet and plate will increase appreciably in 1969. Structural sales will continue to increase and increased sales are also forecast for casing and water line pipe.

PRODUCTION

Production volumes increased moderately during the year under review, as compared to 1967. Ingot production, at 133,697 tons, was up 7% over the 1967 production of 124,725 ingot tons. Mill edge skelp production, at 120,331 tons, increased 20% over the 1967 production of 100,591 tons. Slit skelp, used primarily in the production of smaller diameter pipe, increased 6% to 28,572 tons last year, as compared to 26,812 tons in 1967.

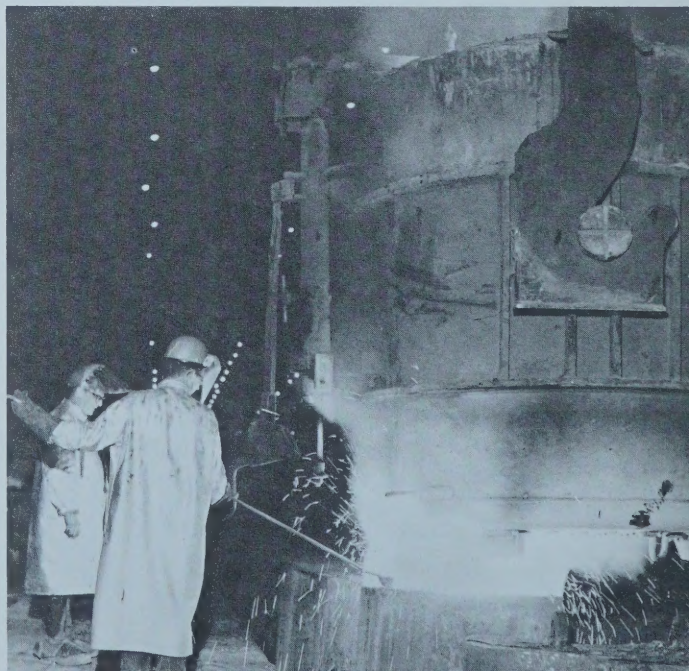
Flat rolled products, sheet and plate, totalled 26,847 tons last year, up 10% over the 1967 production of 24,486 tons. Tubular products, including API from 2" to 16" diameter, large diameter spiral weld, casing, structurals and commercial grade pipe increased 17% in volume of production, from 59,874 tons in 1967 to 70,166 tons in 1968. In summary, the volume of semi-finished product (ingot, mill edge skelp and slit skelp) increased 12% in 1968 as compared to 1967.

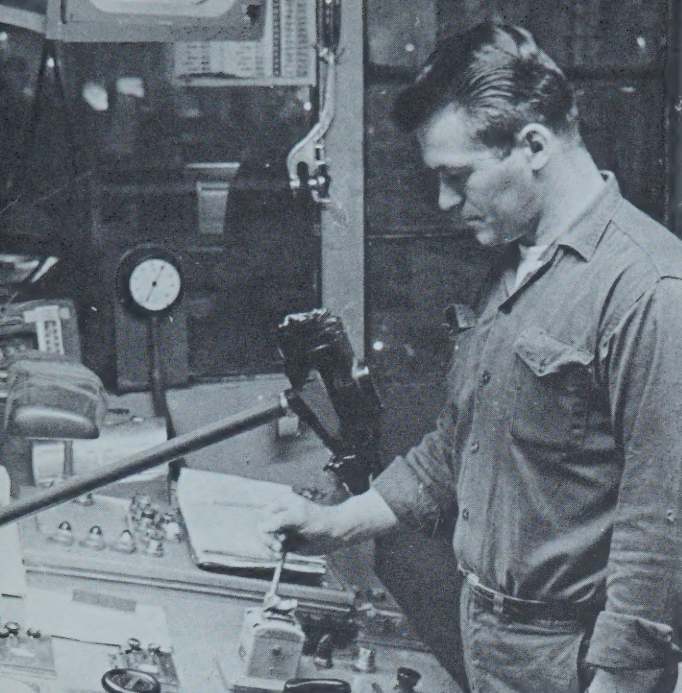
Finished products, (sheet, plate, tubular products) increased 15% in 1968 as compared to 1967.

Despite increased production in both semi-finished and finished products, the forecast levels of production were not met last year and it is only in recent months that satisfactory levels of production have been achieved. The production of API pipe, in the size range from 2" to 16" diameter was the main area where productivity targets were not met. The trend in the industry to higher strength steels, with a greater percentage in the API X-52 grades, has resulted in lower average yields on the mills. This not only increases unit production costs on pipe, but results in a lower volume of production of prime product. IPSCO has pioneered the development and use of lighter wall, higher strength steels in the Canadian pipe industry and will continue to do so. However, over the last two years the selling price of API line pipe has not compensated for the production of high quality pipe.

The production on the spiral weld large diameter pipe mill was lower than forecast. This was due to the introduction of this product into the market. In order to service as many customers as possible, the scheduling required frequent change-overs in size and small production runs, averaging 250 tons. As a result of this program, larger orders have been received in recent months and unit production costs have been reduced. Equipment for bellling large diameter pipe was installed last year to meet requirements for water transmission lines. The spiral mill "break-in" was accomplished very quickly

Last year IPSCO produced 133,697 tons of steel. After pouring the molten steel into ingot molds, shown below, the molds are stripped off and the ingots are re-heated in preparation for rolling.





The operator's pulpit on the 4-Hi rolling mill is equipped with closed-circuit TV to enable the operator to view the rolling operation. In addition, X-ray gauge control on the mill ensures close tolerance on thickness of finished product.

and guaranteed design speeds have been met or exceeded in all sizes produced. The quality of pipe produced is excellent and an extensive testing program was carried out last year.

Several orders for API X-60 pipe have been obtained and product acceptance is very good. Test runs will be undertaken this winter on API X-65 pipe, which will be produced on the spiral weld pipe mill.

Production costs on the major products produced at IPSCO increased during the year under review. Increases in labour and material costs were a contributing factor. In addition, the trend to higher strength steel in API pipe grades, with resultant increased useage of alloying materials and lower yields from ingot through to finished pipe, increased unit production costs.

RAW MATERIALS

The past year continued the downward trend in ferrous scrap prices in the major U.S. industrial centres, which became evident in 1967. This trend results largely from a fundamenal change in steelmaking technology, especially in the United States. The past two years have seen a marked increase in the ratio of steel produced from basic oxygen furnaces, as compared with the more traditional open hearth furnace. The basic oxygen

furnace uses approximately half as much cold scrap as the open hearth. As a result, demand for ferrous scrap has declined while its supply continues to grow.

This change in the industry should serve to keep scrap prices over the next five years at, or slightly above, today's levels. The lower purchase price of scrap opens up a much enlarged area from which IPSCO's main raw material can be economically drawn. Studies indicate that ferrous scrap will be available from an area extending as far south and east as Chicago, over the next five years, at a landed cost roughly comparable to that presently being paid and in quantities adequate to meet IPSCO's foreseeable expansion needs.

Consequently, a source of iron pellets, formerly considered to be a prerequisite to any major expansion plan, is not now necessary. Expansion of steelmaking facilities can therefore proceed without heavy investment in a pellet reduction plant. However, study of reduced iron pellets will continue and should the scrap market undergo a major change (considered most unlikely) or should technological improvements be made in the pre-reduction of iron pellets, the expanded facilities can be easily converted to use the new charge.

New systems were introduced during the year to plan and control ferrous scrap purchasing and inventory programs. These systems have resulted in a reduction of scrap inventories at the year end by \$500,000, when compared with last year. As the system continues to take effect, inventories should be further reduced.

Last year IPSCO rolled 120,331 tons of coiled skelp, sheet and light plate on the mills. After rolling into coils, as shown below, this product is further processed into tubular products on the pipe mills or finished into flat rolled sheet and plate.



LARGE DIAMETER PIPE MILL

The large diameter spiral weld pipe mill was completed on schedule in March of 1968. Only twenty days was required from receipt of the mill components at Regina to install the mill to the point where trial production runs could be carried out. Mill "break-in" was accomplished in record time and by early May three shifts had been trained to operate these new facilities. The large diameter pipe mill was constructed within the \$2,000,000 budget. Additional equipment was installed in June to bell the ends of pipe for use in water line projects.

The sales policy last year, in order to introduce API spiral weld pipe, was to obtain a number of small orders so that all major potential customers would have the opportunity of using this new product on a trial basis. In addition, a series of controlled burst tests were carried out at Regina, witnessed by senior officials of the major oil and gas transmission companies in Canada. This program was most encouraging and during the current year several large orders for API spiral weld pipe have been received.

The Company is currently producing against a 4,200 ton order for API spiral weld pipe, Grade X-60. This will be completed in January and will be followed by an 8,000 ton order of API spiral weld, Grade X-52. In addition, the Company will be tendering on several large diameter project lines for delivery during the current fiscal year. As a result of the sales efforts last year in introducing this product, IPSCO spiral weld is now accepted for the full range of API specification high pressure transmission line pipe.

A major plus factor inherent in spiral weld large diameter pipe was confirmed as a result of the controlled burst tests. On rupture of the steel, the energy is found to travel along the direction of the spiral weld. This dispersion results in the failure being confined to a relatively small area of the pipe, as opposed to the conventional longitudinal weld where the rupture tends to run for a considerable distance. For example, a continuous 120-foot section of spiral weld pipe was subjected to a burst test. On rupture, the affected area of the pipe measured only 20 feet in length. This is considered an important safety factor by operators of high pressure transmission pipelines.

In order to assist in the introduction of API spiral weld pipe, the mill produced twelve different pipe diameters in nineteen change-overs with several wall thicknesses in each diameter. All API grades were pro-

duced up to and including X-60. The combination of on-the-job training of crews to a full three-shift level of operations, short runs with frequent change-overs and extensive tests to establish product quality resulted in unit production costs higher than forecast. However, the orders now being received are for substantial tonnage and production costs will be well within the forecast levels.

In addition to the API pipe market, a considerable demand exists for water line pipe produced to AWWA specifications. IPSCO participated in several water projects last year and product acceptance was excellent. The combination of these two markets, as well as piling, dredge pipe and structural applications, is such that a second spiral pipe mill will be required very soon. The present production facilities can be doubled through the addition of a second spiral pipe mill. As soon as markets warrant, this can be carried out at an estimated capital cost of \$900,000. It is probable, based on sales forecasts, that the spiral mill will operate at capacity for the balance of the current fiscal year.

POTASH SLURRY PIPELINE

In May of 1966, IPSCO sponsored a three-year research program into the feasibility of transporting potash in slurry form by pipeline. IPSCO retained the Saskatchewan Research Council, who developed the project as a follow-up to research on potash slurry pipelining which they had been actively studying over the five-year period 1961-65. The pilot plant facilities were completed at Saskatoon in October of 1966 and over the past two years extensive tests have been carried out on 6", 10" and 14" diameter pipe loops. In October of 1967, IPSCO retained the engineering-consultant firm Parsons-Jurden Corporation of New York to carry out a feasibility study, using the research data developed by the Saskatchewan Research Council, based on a potash slurry pipeline from Saskatchewan mines to Vancouver. This was completed in February of 1968 and established that a 14" diameter pipeline could be constructed capable of transporting six million tons of potash per annum.

The Phase II tests on potash slurry pipelining were completed in May of 1968 and a revised study by Parsons-Jurden Corporation confirmed the results of the initial study. Because of the magnitude of this project, IPSCO took the view that the sponsor should be a company presently in the transportation field and preferably one that had a high degree of Canadian ownership. In June of 1968, following several months

of negotiations, the Canadian Pacific Railway acquired all of the research data developed by IPSCO on this project in return for IPSCO's right to supply all the pipe for the proposed pipeline in the event it is constructed. In addition, IPSCO is assured of a small equity participation in the pipeline company.

Present scheduling will require at least two years further engineering before construction could be considered. However, this timing is consistent with the forecast increase in potash shipments through Vancouver, which are expected to be substantial by 1971.

FINANCIAL

Operations for the year resulted in a profit before depreciation of \$1,332,114. After providing for depreciation in the amount of \$916,874, the net profit for the year amounted to \$415,240. The profit before depreciation is equivalent to \$.47 per common share and the net profit after depreciation is equivalent to \$.09 per common share. Allowance is made in the above calculation for dividends on the preference shares.

As in the previous year, the price war on pipe in Western Canada again reduced revenues and profits on sales of API line pipe and other grades of pipe in this market. The reduction in revenues, as compared to price levels obtained prior to the price war, amounted to \$1,501,000. This represents a direct reduction in net profits and is equivalent to a reduction of \$.53 per common share.

The shareholders' equity amounted to \$22,656,778 at August 31, 1968 as compared to \$22,384,507 at August 31, 1967. Equity per common share at year end amounted to \$7.02 for each common share, with 2,849,051 common shares issued and \$21.30 for each preference share, with 125,000 preference shares issued. It was not necessary for the Company to pay income tax for the year and by using the depreciation provisions of the Income Tax Act to best advantage, it is unlikely that the Company will incur any income tax liability during the current year.

The ratio of depreciated fixed assets to long-term debt at August 31, 1968 was 2.4 to 1 providing approximately \$2,400 security for each \$1,000 in long-term debt. The following summary shows the comparison of depreciated fixed assets to long-term debt for the past seven years:

Year Ending August 31	Depreciated Fixed Assets	Long-term Debt	Ratio
1962	\$18,728,154	\$11,005,000	1.7 to 1
1963	17,786,798	10,105,000	1.8 to 1
1964	22,105,992	11,150,000	2.0 to 1
1965	21,921,580	12,030,563	1.8 to 1
1966	24,100,844	10,495,062	2.3 to 1
1967	24,115,837	9,916,722	2.4 to 1
1968	26,089,343	10,883,819	2.4 to 1

The statement of source and application of funds, which is included with the audited financial statements, shows how the funds flowed in the Company for the year ended August 31, 1968. The statement shows that the source of funds totalled \$3,186,573. This, together with a reduction in working capital of \$712,750, provided the Company with funds for fixed asset additions of \$2,890,380, retirement of long-term debt of \$858,943 and dividends on preference shares of \$150,000. As at August 31, 1968 the working capital was \$7,359,920, as compared with \$8,072,670 as at August 31, 1967. The following is a comparison of the working capital and change in working capital over the past seven years:

Year Ending August 31	Working Capital	Increase or Decrease
1962	\$ (717,910)	\$ —
1963	718,492	1,436,402
1964	1,045,387	326,895
1965	4,892,305	3,846,918
1966	7,236,269	2,343,963
1967	8,072,670	836,401
1968	7,359,920	(712,750)

A careful review was made last year by the Board of Directors into the policy with respect to dividends on common shares. The very serious reduction in earnings as a result of the pipe price war in Western Canada has deferred a decision on dividends on common shares for the present time. However, this matter will be reviewed periodically by the Board of Directors and at the appropriate time a dividend on common shares will be declared.

Respectfully submitted on behalf of the Board of Directors.

Regina, Canada,
January 6, 1969.

J. N. TURVEY,
President.

INTERPROVINCIAL STEEL
(INCORPORATED UNDER THE
BALANCE SHEET

ASSETS

CURRENT ASSETS	1968	1967
Cash	\$	\$ 82,813
Accounts receivable	2,936,420	3,835,361
Special refundable tax	83,430	
Loan receivable — Note 1	249,800	
Inventories valued at the lower of cost or net realizable value		
Finished products	3,740,597	2,572,923
Work in process	2,924,237	2,662,002
Materials and supplies	3,620,621	3,513,125
Prepaid expenses	225,926	222,762
	<u>13,781,031</u>	<u>12,888,986</u>
SPECIAL REFUNDABLE TAX		112,762
DEFERRED ACCOUNTS RECEIVABLE	<u>91,334</u>	
 FIXED ASSETS — at cost		
Pipe plants		
Buildings	941,499	516,982
Machinery and equipment	6,497,788	4,298,571
 Steel plant		
Buildings	2,810,779	2,808,905
Machinery and equipment	19,967,303	19,688,841
	<u>30,217,369</u>	<u>27,313,299</u>
Accumulated depreciation	4,395,380	3,642,761
	<u>25,821,989</u>	<u>23,670,538</u>
Construction in progress		177,945
Land (including iron ore property)	267,354	267,354
	<u>26,089,343</u>	<u>24,115,837</u>
	<u><u>\$39,961,708</u></u>	<u><u>\$37,117,585</u></u>

The accompanying notes are an integral part of this financial statement.

AND PIPE CORPORATION LTD.

(COMPANIES' ACT OF SASKATCHEWAN)

AUGUST 31, 1968

LIABILITIES

CURRENT LIABILITIES

	1968	1967
Bank indebtedness — Note 2	\$ 3,955,609	\$ 2,425,000
Accounts, payable and accrued	1,477,441	1,367,345
Sales taxes payable	151,672	209,171
Current maturities on long-term debt	773,889	752,300
Dividend payable on preference shares	62,500	62,500

6,421,111

4,816,316

LONG-TERM DEBT — Note 3

10,883,819

9,916,762

SHAREHOLDERS' EQUITY

CAPITAL STOCK — Note 4

Authorized

125,000 \$1.20 cumulative redeemable convertible preference shares no par value

5,000,000 common shares no par value

Issued

125,000 preference shares 2,662,500 2,662,500

2,849,051 common shares 8,360,989 8,353,958

11,023,489

11,016,458

RETAINED EARNINGS — Note 5

11,633,289

11,368,049

22,656,778

22,384,507

\$39,961,708

\$37,117,585

Approved on behalf of the Board:

F. E. SHAW, *Director*

J. N. TURVEY, *Director*

INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the Year Ended August 31, 1968

	1968	1967
SALES	\$15,515,060	\$14,657,504
EARNINGS BEFORE PROVIDING FOR THE UNDERNOTED EXPENDITURES	2,182,597	3,172,062
Interest on long-term debt	649,434	630,393
Discount on purchase of bonds for sinking fund	43,690	
	605,744	630,393
Other interest	227,139	152,706
Directors' fees	17,600	17,275
Depreciation	916,874	770,215
	1,767,357	1,570,589
NET EARNINGS — Note 6	415,240	1,601,473
Retained earnings at beginning of year	11,368,049	9,916,576
Dividend on preference shares	(150,000)	(150,000)
RETAINED EARNINGS AT END OF YEAR	\$11,633,289	\$11,368,049

The accompanying notes are an integral part of this financial statement.

AUDITORS' REPORT TO THE SHAREHOLDERS

To The Shareholders

Interprovincial Steel and Pipe Corporation Ltd.

We have examined the accompanying financial statements of Interprovincial Steel and Pipe Corporation Ltd. for the year ended August 31, 1968 comprising the balance sheet as at that date and the statements of earnings and retained earnings and source and application of funds for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the company, the aforementioned statements, together with the notes thereto, are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at August 31, 1968 and the results of its operations and the source and application of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. All the transactions of the company that have come to our notice have been within the objects and powers of the company.

Regina, Saskatchewan,
October 18, 1968.

RIDDELL, STEAD, GRAHAM & HUTCHISON,
Chartered Accountants.

INTERPROVINCIAL STEEL AND PIPE CORPORATION LTD.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Year Ended August 31, 1968

	1968	1967
SOURCE OF FUNDS		
From operations		
Net earnings	\$ 415,240	\$ 1,601,473
Non-cash charges		
Depreciation	916,874	770,215
	<u>1,332,114</u>	<u>2,371,688</u>
 Proceeds from sale of common shares	 7,031	 41,486
Long-term bank loan	1,826,000	174,000
Reduction of deferred receivables	21,428	
	<u>3,186,573</u>	<u>2,587,174</u>
 APPLICATION OF FUNDS		
Expenditures for plant and equipment	2,890,380	785,208
Reduction of long-term debt	858,943	752,300
Dividend on preference shares	150,000	150,000
Special refundable tax		63,265
	<u>3,899,323</u>	<u>1,750,773</u>
 INCREASE (DECREASE) IN WORKING CAPITAL	 (712,750)	 836,401
Working capital at beginning of year	8,072,670	7,236,269
WORKING CAPITAL AT END OF YEAR	<u>\$ 7,359,920</u>	<u>8,072,670</u>

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 1968

1. LOAN RECEIVABLE

The loan is secured by a first mortgage on the fixed assets and property of Great West Mining and Smelting Corporation Limited due December 11, 1968 at 7% per annum.

2. BANK INDEBTEDNESS

The bank loans, including the \$2,000,000 shown in long-term debt, are secured by a general assignment of book debts and under Section 88 of the Bank Act. In addition, the bank holds a floating charge on the assets of the company.

3. LONG-TERM DEBT

	Outstanding	
	<u>1968</u>	<u>1967</u>
5½ % First mortgage sinking fund bonds maturing December 1, 1973 (sinking fund \$625,000 per annum 1968 - 1972)	\$ 4,327,000	\$ 5,000,000
6½ % First mortgage sinking fund bonds Series B due August 15, 1985	2,595,000	2,675,000
6½ % First mortgage sinking fund bonds Series C due August 15, 1985 (U.S. \$1,406,000)	1,513,208	1,560,562
6 % Convertible sinking fund debentures maturing December 1, 1974	1,222,500	1,259,500
Bank loan, borrowed to finance the construction of the Spiral Pipe Mill, due subsequent to September 1, 1969	2,000,000	174,000
	<u>11,657,708</u>	<u>10,669,062</u>
Current maturities	773,889	752,300
	<u>\$10,883,819</u>	<u>\$ 9,916,762</u>

The sinking funds for the Series B and Series C bonds require payments of \$94,000 and U.S. \$51,000 respectively August 15, 1969 and gradually increasing each year to \$241,000 and U.S. \$130,000 respectively at maturity.

Sinking fund payments for the 6% convertible debentures are \$150,000 per annum December 1, 1968 to 1973. Under the provisions of the trust deeds, the company is permitted to satisfy the sinking fund payments due in whole or in part by applying credits established through conversion of debentures to common shares and by purchase of debentures. In accordance therewith, it is the company's intention to satisfy the payment due December 1, 1968 by applying the credits of \$90,500 from conversions in prior years, \$37,000 from purchases during the current year and \$22,500 from conversions subsequent to August 31, 1968.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended August 31, 1968

4. CAPITAL STOCK

During the year, 2,400 common shares were issued under the employees' share option plan at \$2.93 per share.

The following unissued common shares are reserved at August 31, 1968:

(a) Shares for possible issuance upon conversion of the 6% convertible sinking fund debentures at the rate of \$6.30 to November 30, 1974	194,048
(b) Shares for possible issuance upon conversion of the \$1.20 cumulative redeemable convertible preference shares at the rate of three (3) common shares for one (1) preference share convertible at any time up to, but not after, October 1, 1972. These shares are redeemable at the option of the company at \$22.55 per share after October 1, 1968	375,000
(c) Options granted to the Province of Saskatchewan at \$5.00 per share exercisable up to December 1, 1973	60,000
Total number of shares reserved	<u>629,048</u>

5. DIVIDEND RESTRICTIONS

- (a) The deed of trust and mortgage securing the first mortgage bonds restricts the payment of dividends on any class of the company's capital stock if the net working capital of the company is, or by reason of the payment of such dividend would be reduced to, less than \$4,000,000 or, the shareholders' equity reduced to less than \$12,000,000.
- (b) The provisions attached to the preference shares restrict the payment of dividends on the common shares:
 - (i) if the preference dividends are in arrears
 - (ii) if the payment of such common share dividends would reduce the retained earnings below the amount of \$9,766,232.

6. DEPRECIATION AND INCOME TAXES

As a result of the company's policy of claiming for tax purposes capital cost allowances in excess of the depreciation recorded in the accounts, no provision for income taxes has been charged against income. The income taxes otherwise chargeable against income would be approximately \$189,000. This difference may be applicable to future periods in the event amounts that can be claimed for tax purposes are less than the depreciation recorded in the accounts. The accumulated amount by which income taxes have been reduced by claiming excess capital cost allowance in this and prior years is approximately \$6,339,000.



